

**SPUR VENTURES INC.
MANAGEMENT DISCUSSION & ANALYSIS
FOR THE QUARTER ENDED MARCH 31, 2009**

Dated: May 14, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis ("MD&A") has been prepared as of May 14, 2009, and should be read in conjunction with the unaudited interim consolidated financial statements with accompanying notes of Spur Ventures Inc. (the "Company") for the quarter ended March 31, 2009 which have been prepared in accordance with Canadian Generally Accepted Accounting Principles.

This MD&A contains certain statements that may be deemed to be "forward-looking statements" regarding the timing and content of upcoming programs. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those expressed in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, future prices of nitrogen, phosphate and potash, exploration successes, continued availability of capital and financing, the exchange rates for Canadian, US and Chinese currencies, Chinese policies on fertilizer and agriculture, and general economic, market or business conditions.

All amounts are reported in U.S. dollars and rounded to the nearest thousand where appropriate, unless otherwise stated. Additional information on the Company can be found in the filings with Canadian security commissions on SEDAR at www.sedar.com.

1. Nature of Operations

Spur Ventures Inc. ("Spur", or the "Company") through its 100% owned subsidiary Spur Chemicals (BVI) Inc. ("Spur BVI") has majority control of two sino-foreign joint ventures ("JV") in China, Yichang Maple Leaf Chemicals ("YMC") and Yichang Spur Chemicals ("YSC"). In both JVs, the Chinese partner is Hubei Yichang Phosphorus Chemical Co. Ltd ("YPCC"), a state owned enterprise of Yichang City, Hubei Province, PRC.

Impact of the Global Recession

Due to the global financial crisis, the rapid decline in commodity prices in the fourth quarter of 2008, the Chinese government extension of export tariffs and the uncertainty in near term fertilizer markets both in China and globally, the Company decided to temporarily suspend its planned MAP plant construction.

Many Chinese fertilizer companies had significant levels of high priced inventory which, because of the tariffs, they could no longer export to take advantage of higher international prices. Chinese retailers and farmers thus delayed purchases in anticipation of lower fertilizer prices which did occur as a result of falling demand and increased inventory.

Despite government stimulus programmes supporting the fertilizer industry through the secure supply of coal, natural gas and transportation and providing access to credit and minimum crop prices to farmers, the Chinese fertilizer market remains depressed at least for the short term.

The Company believes that it has sufficient funding to meet its obligations and to maintain administrative and operational expenditures for the next 12 months.

Yichang Maple Leaf Chemicals (YMC)

Spur BVI controls 90% and YPCC 10% of YMC. In November of 2003, YMC received its business license with a term that expires in 2033. All government approvals had been received for YMC to develop two phosphate deposits and to construct and operate a world-scale compound fertilizer plant.

In February and October of 2004 the Central Ministry of Land and Resources issued the mining licenses ("Licenses") for the Dianziping and Shukongping deposits ("Deposits") to YPCC, setting the stage for the transfer of the Licenses to YMC once Spur had contributed its first 15% of Registered Capital to the YMC JV. Spur made this contribution in March of 2005, and YPCC is contractually obligated to contribute the Deposits to the JV as its registered capital contribution. Pursuant to the terms of the YMC JV agreement, Spur has the obligation to contribute the project financing. The remaining 85% of the Registered Capital is due on or before November 24, 2009.

The Deposits are considered state owned assets, and their transfer to a foreign controlled JV is complex and has proved extremely time consuming for Spur. YMC has been working with various government departments at the District, County and Yichang City level to meet the regulatory requirements for the formal transfer of the Licenses, but to date has not been successful in meeting these requirements.

The Company is unwilling to invest further in YMC until such time as it has the security of the Licenses being formally transferred to YMC, and is in discussions with potential business partners to assist Spur in completing the transfer.

The mining license for the Shukongping deposit will expire at the end of October, 2009 if it has not been transferred to YMC. It can however be renewed. If it is not renewed the license will revert to the Central Ministry of Land and Resources or to MOLAR at the Hubei Province level, where it must be auctioned to the highest bidder in an open competition.

The YMC JV agreement requires that both YPCC and Spur BVI contribute an additional \$11.28 million (RMB76.96 million) and \$127.21 million (RMB867.85 million) respectively to complete their entire Registered Capital contributions before November 24, 2009 when the YMC Business License will be reviewed. If these contributions are not made, there is a risk that YMC's business license will not be renewed and YMC may have to be liquidated.

Yichang Spur Chemicals

During 2004, the Company acquired Xinyuan Chemicals Ltd. from YPCC and formed YSC, which owns an NPK compound fertilizer facility located in Hubei Province, China. Spur BVI owns 72.18% of the YSC JV and the other two minority partners are YPCC which owns 16.69%, and YMC which in June, 2008 acquired the 11.13% interest originally held by Yichang Yuanfeng Chemical.

During the third quarter of 2007 management concluded that prices of raw materials, especially potash and sulphuric acid, were too high for the YSC fertilizer facility to be viable. Management decided to idle the facility and integrate it into a mono-ammonium phosphate ("MAP") plant with YMC.

During 2008, the Company commenced construction to convert the fertilizer facility into a MAP plant. Due to the global financial crisis, the rapid decline in commodity prices in the

fourth quarter of 2008, the Chinese government extension of export tariffs and the uncertainty in the near term fertilizer markets both in China and globally, the Company decided to temporarily suspend the MAP plant construction. Management will continue to work with YPCC to complete the transfer of the mining licenses to YMC in order to secure a long-term source of phosphate rock for both the MAP project and the Integrated Phosphate Project.

2. Significant Events

- **Maintaining a Solid Cash Position amidst Global Financial Crisis**

Cash and term-deposits with major Canadian banks stood at approximately \$20.3 million (\$24.2 million Canadian dollars mainly held in Canadian dollar denominated accounts) at the date of this report. The Company has no asset backed commercial paper.

- **Integrated Phosphate and MAP Project Update**

Management concluded in the third quarter of 2007 that price levels of certain raw materials, especially potash and sulphuric acid, were too high for the NPK fertilizer facility to be viable, and decided to upgrade the current facility to produce MAP (Mono-ammonium phosphate), which does not rely on potash and has better economic prospects.

During 2008, the Company commenced construction activity to convert the fertilizer facility into a MAP plant. As of the date of this report, total cost to construct the plant has been estimated to be approximately \$18.5 million (RMB126 million). The Company currently has \$9.60 million (RMB65.63 million) in signed contracts for the MAP project, \$3.19 million (RMB21.83 million) has been paid, \$1.00 million (RMB6.84 million) has been accrued, and \$5.41 million (RMB36.96 million) has been disclosed as a commitment.

On October 30, 2008, the Company announced the suspension of construction of the MAP plant pending a complete review of the impact of the global financial crisis on the Chinese economy and the fertilizer sector. Management estimates that, as of the date of this report, through negotiations with suppliers and contractors final contract obligations for the MAP plant may be less than \$1 million.

In order to reduce all costs, the Company has terminated the employment of approximately 120 employees at both YSC and YMC, all in accordance with the practices dictated in China's new Employment Law. This leaves a core group of twenty-five employees to maintain facilities and negotiate with contractors and suppliers.

The Company continues to seek potential partners, both in the MAP project and in the Integrated Phosphate project. No further investment will be made in the MAP project until such time as significant progress is achieved towards the transfer of the Licenses. Once the Licenses have been transferred to YMC, they will be sufficient collateral for debt financing from Chinese banks. At that time, the Company will decide how to proceed with additional financing for the project.

3. Results of Operations – Q1 2009

Yichang Maple Leaf Chemicals (YMC)

YMC has been focusing on the transfer of the Licenses.

The Licenses were issued by Central Land and Resources Department to YPCC in February and October of 2004 respectively.

After due diligence the first approval stage was completed in late December 2006 when Yiling District (Dianziping deposit) and Xinshang County (Shukongping deposit) officially approved the transfer and the file moved to the Yichang City level.

Yichang City completed its due diligence on the transfers in the first quarter of 2007. Since the Licenses are considered state assets and are being transferred to a foreign-controlled joint venture, it is necessary to complete an assessment ("Resource Report") of the current value of the Deposits, updated from the initial report made at the time the original JV contract was signed in 2003.

This Resource Report must be approved by the Central Ministry of Land and Resources and forms an integral part of the file that will be transferred from Yichang City to Hubei Province Land and Resources as part of the License transfer process.

The first draft of the Resource Report suggests that the value of the Deposits has increased since the signing of the original joint venture contract. The report is currently being reviewed by Spur's mining experts, after which Spur anticipates entering into negotiations with YPCC to set a new value for the Deposits and the respective stakes of Spur and YPCC in the YMC joint venture.

Effective January 1, 2008, new Ministry of Commerce regulations on foreign investment placed phosphate deposits in the restricted category. Spur has received expert opinions from the Central Ministry of Land and Resources and legal counsel that Spur's rights based on the 2003 joint venture contract are "grandfathered" and are not affected by this new restriction. These new regulations now require final approval at the Central Land and Resources level, however, rather than Hubei Province Land and Resources as was previously the case.

Spur Consolidated Results

Q1 2009 loss was \$736,000, \$254,000 more than the Q1 2008 loss of \$482,000. The increase was attributable to a non-recurring Q1 2008 \$218,000 credit from non-controlling interest, a \$131,000 decrease in interest income, a \$101,000 foreign exchange reduction, and a \$90,000 reduction in sales, partially offset by a \$286,000 decrease in operating expenses. Loss per share in Q1 2009 was \$0.012 (Q1 2008 loss per share: \$0.008).

Interest income decreased \$131,000 from \$180,000 in Q1 2008 to \$49,000 in Q1 2009, due to a significant decline in general interest rate levels and a decrease in Spur's cash resources.

Operating expenses decreased \$286,000 from \$1,065,000 in Q1 2008 to \$779,000 in Q1 2009 due to Spur's decision to idle the fertilizer plant and reduce activities in China. Reductions included cost of product sold (\$88,000), mineral property costs (\$23,000), selling expenses (\$15,000), office and miscellaneous expenses (\$75,000), travel expenses (\$35,000), consulting fees (\$89,000) and rent expenses (\$9,000). Wages were \$63,000 higher because of severance payments to down size the operations.

Year end balances of certain accounts impacted directly by sales and production also decreased as a result of the idling of the fertilizer plant during the quarter. These include reductions in prepaid expenses from \$63,000 to \$45,000 and in payables and accrued liabilities related to operating activities, from \$613,000 to \$600,000. Accrued liabilities related to the MAP project construction in progress decreased from \$1,179,000 to \$1,004,000.

The Company's cash and cash equivalents and short-term investments at the end of March 31, 2009 amounted to \$19.60 million compared to \$20.87 million at December 31, 2008, maintaining a solid cash position under the current global financial crisis. The Company believes that it has sufficient funding to meet its obligations and to maintain administrative and operational expenditures for the next 12 months.

Foreign Exchange Gain or Loss

Q1 2009 foreign exchange loss was \$21,000, compared to a foreign exchange gain of \$80,000 in Q1 2008.

The Company conducts business in China, with most costs and revenues in Chinese Renminbi, while the Vancouver head office incurs expenses in Canadian dollars. Foreign exchange losses or gains are dependent upon the exchange rate relationship among the U.S. Dollar, Chinese Renminbi and Canadian Dollar. It is anticipated that exchange rates will be volatile for the foreseeable future. This may result in foreign exchange fluctuating between gains or losses on a quarterly basis. The Company does not use derivatives to hedge against exposures to foreign currency losses arising from the Company's liabilities, therefore the Company is exposed to future fluctuations in the three currencies.

4. Summary of Quarterly Results (unaudited)

| | Qtr ended Mar. 31, 2009 | Qtr ended Dec. 31, 2008 | Qtr ended Sep. 30, 2008 | Qtr ended Jun. 30, 2008 | Qtr ended Mar. 31, 2008 | Qtr ended Dec. 31, 2007 | Qtr ended Sep. 30, 2007 | Qtr ended Jun. 30, 2007 |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Total revenues (\$) | 15,145 | - | 52,578 | 176,182 | 104,450 | 615,339 | 2,046,813 | 1,513,971 |
| Earnings (loss) (\$) | (736,039) | 2,484,417 | (468,688) | (999,461) | (482,292) | (2,289,169) | (524,183) | (1,435,372) |
| Earnings/(loss) per share (\$) | (0.012) | 0.041 | (0.008) | (0.017) | (0.008) | (0.039) | (0.009) | (0.024) |
| Weighted average number of shares outstanding | 60,329,196 | 59,915,019 | 60,389,796 | 60,111,949 | 58,740,520 | 58,740,520 | 58,740,520 | 58,740,520 |

Results of some quarters include significant items that do not normally occur quarterly. Q4 2008 results included a \$3,458,000 foreign exchange gain, and the loss in Q4 2007 included a \$446,000 write-off of Tianren acquisition costs and a \$376,000 provision for bad debts.

5. Liquidity and Capital Resources

As at March 31, 2009, the Company maintained a balance of cash and cash equivalents and short-term investments of \$19.60 million, including \$19.58 million deposits with major Canadian financial institutions (approx. \$24.68 million in Canadian dollars denominated accounts at the Q1 2009 quarter end exchange rate of one U.S. dollar to 1.2602 Canadian dollars), \$12,000 in Chinese Renminbi Deposits and \$7,000 in U.S. Dollar deposits.

As at March 31, 2008, the Company had \$9.60 million (RMB65.63 million) in signed contracts for the MAP project, of which \$3.19 million (RMB21.83 million) has been paid, \$1.00 million (RMB6.84 million) has been accrued, and \$5.41 million (RMB36.96 million) has been booked as commitment. . A summary of the Company's commitment in the next five years is as follows:

| | <u>MAP project contracts</u> |
|------|------------------------------|
| 2009 | \$5,405,598 |
| 2010 | - |
| 2011 | - |
| 2012 | - |
| 2013 | - |

The Company does not have any off-balance sheet arrangements.

The Company believes that it has sufficient funding to meet its obligations and to maintain administrative and operational expenditures for the next 12 months.

Capital Management

Capital includes all components of shareholders' equity, such as accumulated comprehensive income, share capital, contributed surplus and deficit. The Company's objective in managing capital is to safeguard the Company's ability to continue as a going concern, to maintain a flexible capital structure which optimizes cost of capital at acceptable risk, and to provide reasonable returns to shareholders. The Company invests its funds in deposits and short-term investments with major financial institutions and monitors capital by gauging cash and short-term investments available for use. The Company makes adjustments to its capital structure depending on changes in economic conditions, foreign exchange rates and the risk characteristics of the Company's assets. In order to maintain or adjust the capital structure, the Company may issue new shares, or sell assets to improve working capital. The Company has no asset backed commercial paper exposure.

6. Transactions with Related Parties

During the three months ended March 31, 2009, the Company paid consulting fees of \$33,610 to two companies controlled by one officer and one director (2008: \$85,112 to three companies controlled by one director and two officers).

Accounts payable to these companies for expenses incurred were \$nil at the end of March 31, 2009 and 2008. Except for the RMB2,116,667 (\$310,259) due from YPCC (note 6), there were no other accounts receivables from related parties.

The above transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the fair value consideration established and agreed to by the related parties.

7. Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to establish accounting policies and to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain.

Note 3 to the audited annual consolidated financial statements for the year ended December 31, 2008 include a summary of the Company's significant accounting policies. The following

policies are considered to be the critical accounting policies since they involve the use of significant estimates.

Impairment of long-lived assets

Where events or changes in circumstances suggest impairment, management reviews the future net cash flows of each long-lived asset. Estimated future net cash flows are calculated using estimated future prices, selling prices for fertilizer products, and operating, capital and reclamation costs on an undiscounted basis to determine if the carrying amount is not recoverable. If the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposal, reductions in the carrying value of such long-lived asset would be recorded to the extent the net book value of the related asset exceeds its fair value (estimated by the net present value of expected future net cash flows).

Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses if the carrying value can be recovered.

Management's estimates of mineral prices, selling prices for fertilizer products, and operating, capital and reclamation costs are subject to certain risks and uncertainties which may affect the recoverability of long-lived assets. Although management has made its best estimate of these factors, it is possible that changes may occur in the near term which could adversely affect management's estimate of the net cash flow to be generated from the Company's assets.

For the quarter ended March 31, 2009, the Company noted several impairment indicators including but not limited to the Company's lower than cash value share price, the rapid decline in commodity prices in the fourth quarter of the year, the Chinese government extension of export tariffs and the uncertainty in the near term fertilizer markets both in China and globally.

As a result, management conducted a recoverability analysis on its long-lived assets including its property, plant and equipment and land use rights in China. Management has concluded that these long-lived assets are not impaired but have identified certain significant measurement uncertainties, which are disclosed in Note 1 to the interim consolidated financial statements for the quarter ended March 31, 2009, as follows:

Management has not recorded a current impairment charge against the existing fertilizer plant and equipment and land use rights, as management remains confident the required financing for the MAP plant can be obtained and Spur's conversion and expansion plans for the MAP plant will generate profitable operations in future. There remain additional risks and uncertainties that the transfer of the Licenses will be approved, that economic ore reserves will be identified and that the significant equity or debt financing for the Dianziping and Shukongping phosphate project will be available to the Company. The phosphate rock project also faces additional risks and uncertainties, including, but not limited to, raw material and construction cost risks, product marketing risks, and political risks.

The recoverability of the Company's investment in property rights, plant and equipment in China is dependent upon these plans or the ability of the Company to dispose of the assets and recover its investment. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary should these material risks and measurement uncertainties prove to be insurmountable, and these adjustments could be material.

8. Changes in Accounting Policies including Initial Adoption

The Company has adopted CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises. Adoption of this standard has no impact on the Company's consolidated financial statements.

There are three new CICA accounting standards that have been issued but not yet adopted by the Company.

CICA Handbook Section 1582, *Business Combinations*, which replaces the former *Business Combinations*, Section 1581, establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3, "Business Combinations" (January 2008). It applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Company is evaluating the impact of these new standards on the Company's consolidated financial statements.

CICA Handbook Section 1601, *Consolidated Financial Statements*, establishes standards for the preparation of consolidated financial statements. Together with the new CICA Handbook Section 1602, it replaces the former *Consolidated Financial Statements*, Section 1600. It applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is evaluating the impact of these new standards on the Company's consolidated financial statements.

CICA Handbook Section 1602, *Non-controlling interests*, establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, "Consolidated and Separate Financial Statements" (January 2008). It applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is evaluating the impact of these new standards on the Company's consolidated financial statements.

Requirement to adopt International Financial Reporting Standards (IFRS) starting 2011

In February 2008, the Canadian Accounting Standards Board ("AcSB") announced that changeover for publicly-listed companies to adopt IFRS, replacing Canada's own GAAP, will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Corporation for the year ended December 31, 2010. The Company is presently evaluating the effect these standards will have on its financial statements.

9. Outstanding Share Data

As of the date of this report, the Company had the following shares and options outstanding:

| | Number | Exercise Price CAD | Expiry Date |
|---------------|---------------|---------------------------|--------------------|
| Shares | 60,407,187 | N/A | N/A |
| Stock options | 1,250,000 | 1.50 | July 23, 2009 |
| Stock options | 500,000 | 1.80 | March 1, 2010 |
| Stock options | 200,000 | 1.50 | September 16, 2010 |
| Stock options | 625,000 | 1.03 | July 4, 2011 |
| Stock options | 200,000 | 0.64 | January 4, 2012 |
| Stock options | 20,000 | 0.55 | April 4, 2012 |
| Stock options | 20,000 | 0.50 | December 3, 2012 |
| Stock options | 905,000 | 0.90 | June 26, 2013 |
| Total | 64,127,187 | | |

Options granted subsequent to December 31, 2006 vest over a three-year period, with one-third of the options vesting one year after the date of grant, one-third two years after the date of grant, and the remaining one-third three years after the date of grant. During Q1 2009 compensation expense of \$67,184 was recognized (Q1 2008: \$43,534) for options granted in the current and prior years.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with assumptions for the grants as follows:

| | 2008 | 2007 | 2006 |
|-----------------------------------|---------------|---------------|---------------|
| Risk free interest rate | 2.76% - 2.98% | 3.94% - 4.62% | 4.00% - 4.50% |
| Expected life of options in years | 5 years | 5 years | 5 years |
| Expected volatility | 49% - 69% | 49% - 79% | 49% - 51% |
| Dividend per share | \$0.00 | \$0.00 | \$0.00 |

10. Outlook

While the fundamentals for food and fertilizers remain strong, particularly in the BRIC countries, the Company has decided to temporarily suspend the construction of its MAP project and to reduce all possible costs until stability returns to the market.

The Company continues to seek a partner or partners for the MAP project. Ideally these potential new partners would bring both political and financial strengths to any partnership with Spur which may assist in the transfer of the Licenses.

11. Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is communicated to senior management, to allow timely decisions regarding required disclosure.

An evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined under the rules of the Canadian Securities Administration, was conducted as of December 31, 2008 under the supervision of the Company's Audit Committee and with the participation of management. Based on the results of that evaluation, the Chief Executive Officer and Chief

Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report in providing reasonable assurance that the information required to be disclosed in the Company's annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported in the securities legislation.

Since the December 31, 2008 evaluation, there have been no adverse changes to the Company's controls and procedures and they continue to remain effective.

12. Internal Controls over Financial Reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in compliance with Canadian generally accepted accounting principles ("GAAP"). The Company's internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and the Company's receipts and expenditures are made only in accordance with authorization of management and the Company's directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material affect on the annual or interim financial statements.

An evaluation of the effectiveness of the Company's internal control over financial reporting was conducted as of December 31, 2008 by the Company's management, including the Chief Executive Officer and Chief Financial Officer. Based on this evaluation, management has concluded that the Company's internal controls over financial reporting were effective.

There were no adverse changes in the Company's internal controls over financial reporting during the year ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Limitations of Controls and Procedures

The Company's management, including the Chief Executive Officer and the Interim Chief Financial Officer, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. In an emerging economy such as China, the potential for fraud is very

real and the Company understands that no system of internal controls, no matter how good, can prevent inappropriate actions by an individual employee.

13. Financial instruments and risks

Information of the Company's financial instruments is summarized as follows:

Fair value

| | Effective Annual Interest Rate | Fair Value \$ | Carrying Amount \$ |
|--|-----------------------------------|------------------|-----------------------|
| <u>Financial Assets</u> | | | |
| Cash and deposits | up to 0.54% | 19,285,742 | 19,285,742 |
| Term deposits | 3.05% | 317,629 | 317,629 |
| Due from joint venture partner | | | |
| -Loan | 4.875% | 198,830 | 198,830 |
| -Receivables | n/a | 110,893 | 110,893 |
| Receivables | n/a | 13,173 | 13,173 |
| <u>Financial Liabilities</u> | | | |
| Accounts payable and accrued liabilities | n/a | 1,603,430 | 1,603,430 |
| Customer deposits | n/a | 38,404 | 38,404 |

All term deposits held at March 31, 2009 have been classified as short-term investments held to maturity and accordingly are carried at amortized cost using the effective interest method. The carrying values of cash and deposits, term deposits, receivables, customer deposits and accounts payable and accrued liabilities approximate their fair values due to the short periods to maturity.

Management has determined that there are no embedded derivatives.

Credit risk

The Company maintains a substantial portion of its cash and cash equivalents with major financial institutions in Canada. The Company is not currently subject to a concentration of credit risk in relation to its accounts receivable, due to the idling of the fertilizer plant (Note 1).

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

Foreign currency risk

A substantial portion of the Company's business is carried out in Chinese Renminbi, and the Company maintains Renminbi denominated bank accounts. Fluctuations in exchange rates among the Canadian dollar, Chinese Renminbi and US dollar could have a material effect on the business, results of operations and financial condition of the Company. Based on the balances as at March 31, 2009, other things being equal, a 1% increase (decrease) in the exchange rate of converting one U.S. dollar into Canadian dollars on that day would have resulted in an increase (decrease) of approximately \$245,000 in earnings before income

taxes; a 1% increase (decrease) in the exchange rate of converting one Canadian dollar into Chinese Reminbi on that day would have resulted in a decrease (increase) of approximately \$13,000 in earnings before income taxes.

Interest rate risk

The Company's interest rate risk mainly arises from the interest rate impact on its interest income derived from US Dollar, Canadian Dollar and Chinese Renminbi cash and term deposits. The Company's policy is to invest its funds at market rates and, where necessary, to borrow at fixed rates, although as at March 31, 2009 the Company had no outstanding debt. Based on the balances of cash and cash equivalents and short-term investments as at March 31, 2009, other things being equal, a 1% increase (decrease) in the interest rate on that day would have resulted in an increase (decrease) of approximately \$49,000 in earnings before income taxes for the quarter ended March 31, 2009.

14. Other Risk Factors

The Company's business is in China which, despite recent government policy changes, carries risk for foreign owned operations. Please refer to the Company's 2008 Annual Information Form which is available on the SEDAR database at www.sedar.com.

The Company wishes, however, to discuss two project specific risks, namely the expiry of one of the Licenses and the required review before November 24, 2009, of YMC's business license.

Expiry of the Shukongping Mining License

The mining license for the Shukongping deposit will expire at the end of October, 2009 if it has not been transferred to YMC. It can however be renewed. If it is not renewed the license will revert to the Central Ministry of Land and Resources or to MOLAR at the Hubei Province level where it must be auctioned to the highest bidder in an open competition.

Annual Review of YMC's Business License

The YMC Joint Venture agreement requires that both YPCC and Spur BVI contribute their entire Registered Capital contributions before November 24th, 2009 when the YMC Business License will be reviewed. YPCC would have to complete the transfer of the two mining licenses to YMC and Spur BVI would have to make a significant cash contribution of approximately \$127 million. If these contributions are not made, there is a risk that YMC's business license would not be renewed and that YMC may have to be liquidated. If necessary, YMC will request an extension to that deadline on the basis of the challenges facing most companies during this global economic downturn. Alternatively, YPCC and Spur BVI may consider submitting a new project plan and budget which reflects the current realities of the market place.

- End -